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SENSITIVE
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STATE FOR NEA/MAG (STEWART)
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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [TS](#)
SUBJECT: MICRO LENDING IN TUNISIA

Summary

¶1. (U) The Ambassador recently visited Tunisian micro-lender and success story, "ENDA inter-arabe", to discuss micro-lending in Tunisia and how economic conditions are affecting micro-entrepreneurs. The micro-lender has more than 78,000 clients, a 99 percent payback rate and an annual growth rate of 50 percent. GOT imposed regulatory controls and the rising cost of living present challenges for the NGO and for micro-businesses, however. There are more than 500,000 small and medium sized enterprises in Tunisia, and countless more micro-entrepreneurs. Insofar as access to the traditional banking sector remains out of reach, ENDA anticipates continued growth, particularly as it moves into the rural areas of Tunisia, and makes the conversion from NGO to bank. End Summary.

Micro Lender NGO

¶2. (U) "ENDA inter-arabe", the Tunisian branch of ENDA international, a non-profit micro-lending organization, is a source of financing for micro-entrepreneurs in Tunisia. It offers its clients training resources, financing, and business development assistance. Between 2005-2008 ENDA went from having 21 branches, 25,000 active clients and 8 million TD (approx US \$6.4m) in active outstanding loans to more than 50 branches, 78,000 active clients and 35 million TD (approx US \$28.1m). ENDA expects to maintain 50 percent growth for 2008 despite its intentions to open offices in rural areas, which are riskier. For this expansion, ENDA management has already started hiring an additional 200 loan officers. The typical ratio of loan officers to active clients is about 1 to 300. As it continues to grow, ENDA hopes one day to become a full service bank for its clients.

¶3. (U) During a recent visit to their headquarters, the Ambassador was able to meet ENDA staff and learn about micro-lending in Tunisia. Director Essma Ben Hamida and co-Director Michael Cracknell explained that GOT regulations are preventing the micro-lender from meeting the financial needs of its more sophisticated clients. Government restrictions prohibit it from authorizing loans over 5,000 TD. This limitation slows the capitalization and expansion of successful micro-entrepreneurs. According to Nazah Ammar, a textile machine supplier who sells equipment to SME

companies, traditional banks will often require up to 140 percent of the loan for collateral, which for a start-up business is nearly impossible to secure.

¶4. (U) A roundtable discussion with ENDA clients highlighted how the rising cost of living in Tunisia is negatively affecting small business owners who survive on thin margins. One roundtable participant, who owns a perfume shop, complained that even railway ticket prices had recently increased from 18 TD to 23 TD. (Note: Earlier this month the GOT ratcheted-up inflation forecasts for 2008 to 5 percent, up from 3.1 percent in 2007. Two principal contributors to the inflation gauge rose, food prices by 6.1 percent and transport prices by 5 percent. Business experts estimate inflation to be closer to 10 percent, and blame the discrepancy on the use of an antiquated basket of goods by GOT statisticians. End Note.)

Alternatives

¶5. (U) There are a handful of alternatives to ENDA. The largest and oldest institution, Tunisian Solidarity Bank (BTS), was founded in 1997. Another alternative is the Finance Bank for Small and Medium Enterprises (BFPME) which was founded in 2005. Both BTS and BFPME have similar missions to ENDA, servicing a segment of business not yet able to access the traditional banking sector. Unlike BTS which has a repayment rate of 60 percent, BFPME has a reported repayment rate of 94.7 percent which is close to that of ENDA, 99.6 percent.

¶6. (U) ENDA attributes its success to the investment it makes in new loan officers. According to ENDA borrowers and management, ENDA loan officers become part of the fabric of the community and are able to better leverage social pressures to encourage repayment. ENDA management explained that loan officers are given several months of training and then shadow a more experienced officer before they assume their duties. Additionally, this hands-on approach by ENDA allows loan officers to gauge training and business development needs, solidifying the partnership between ENDA and the loan recipient.

Comment

¶7. (SBU) ENDA complains about difficulties with BTS, problems that recently led the Ministry of Finance to call a meeting between the two during which it served as arbitrator. With more than 500,000 SMEs and countless micro-enterprises, there is room for both the non-profit and the government bank, BTS.

BTS could use its connections within the government to support ENDA's efforts to expand both service offerings and access to international capital. Rather than guard its current niche, BTS could reposition itself to serve as a stepping stone between the non-profit and the traditional banking sector, which continues to remain outside the reach of companies ready to graduate from ENDA's lending programs. In a country where internal investment is hovering at 20 percent and employment generation is a key concern, micro-lenders like ENDA should be encouraged. End Comment.

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